

## PANEL DISCUSSION

# NBFC space is quite good right now



**Sector watch:** (From left) Ramesh Iyer, vice-chairman and managing director (MD) of M&M Financial Services; P.H. Ravikumar, non-executive chairman of Bharat Financial Inclusion Ltd; V. Vaidyanathan, chairman and MD of Capital First; and Sunil Kanoria, vice-chairman of SREI Infrastructure Finance Ltd.

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## INTERVIEW

The Reserve Bank of India released guidelines for 'On Tap' licensing of private sector universal banks on Monday. Ramesh Iyer, vice-chairman and managing director of M&M Financial Services Ltd; P.H. Ravikumar, non-executive chairman of Bharat Financial Inclusion Ltd; V. Vaidyanathan, chairman and managing director of Capital First; and Sunil Kanoria, vice-chairman of SREI Infrastructure Finance Ltd, comment on the rules: Edited excerpts from an interview:

**Do you think that now it is only a matter of time before we get an M&M Financial Bank?**

**Iyer:** I thought industry houses are not eligible, therefore it's not us as a candidate but surely I think this is one move towards getting players who may want to look at banking as more attractive than NBFCs (non-banking financial companies).

**Who do you think then will apply.**

**Do you think there will be individuals who will want to start a bank? Who do you think will qualify given the qualifications?**

**Iyer:** Maybe small NBFCs possibly may want to look at while of course the capital requirement is a little steep from a smaller NBFC perspective but maybe they would like to partner with someone, I somehow think there could be some partnerships which may emerge out of this, maybe a small NBFC and

maybe another brokerage also whatever in the sense someone who is wanting to put in capital and someone who has a reach to go deeper, because there are some branches required for rural kind of a reach, etc, and therefore I can see somewhere maybe some partnership may emerge out of this.

**What have you made of this rule, do you think the rules are easy enough to elicit a lot of response?**

**Kanoria:** I think it is consistent with the Reserve Bank of India (RBI) policy that they didn't want a window open, close like that but for the banking system to have On-tap. So, whenever anyone who is eligible and fit and proper as per RBI who applies, they can open up. So, I think that is a good policy framework which is there.

However, what I believe in and what we have stated in the past from our chamber also, from Assocham, that what is required to review the guidelines which are there for the present private sector banks, the old private sector banks which were there, today you can't have a shareholding more than 5% then you have to get approval.

You need approval after 5% to keep up to 10%. So, I think for the existing because many of these existing banks who are there, small private banks, they can grow.

So, existing capacities which are there, I think what is

required is many of the regional rural banks (RRBs) are there, many of the cooperative banks are there, so there must be some policy framework which can unleash many of these—give opportunity, open them up so that they can grow, access new capital, fresh capital can come in just the way you are doing for new banks and create a mechanism. So, I think that is very much required.

**Do you see this as a huge liberalisation? Many people will come into banking?**

**Ravikumar:** I don't know whether many will come into banking but it is a huge liberalisation because if you see in the last 35 years licensing has happened only once in early 90s when the new private sector banks came. Thereafter we have two or three individual licenses which were given on ad hoc basis not as a part of a structured licensing policy. Therefore I would say it is a huge liberalisation.

Since corporates and those who have large other than financial business are not eligible, I think the number who would be eligible would not be very large. I would say it would be not more than, I am talking of serious players, it would not be more than 25-35 groups, who are serious, who have certain level of minimum critical mass.

**You said that you wouldn't be surprised if you saw 35 more licenses, is it?**

**Ravikumar:** No, 35 applicants. **How many more licenses do you**

**think this industry can stand? We already have 66 players now, I am counting all the payment bank and small banks.**

**Ravikumar:** Small banks in similar space, I think we need at least two dozen licenses because today in the financial services I believe money is there to be made only in the customer segments around poverty line and the lower income group. If you take case of housing finance companies, I don't know whether you have noticed but in the last three months to six months and currently on the anvil there are 20 groups which have brought in or committed half a billion of capital just for housing finance.

Therefore that space is large and will need more licenses. Therefore the choice between applicants is whether to be a small bank or to be a universal bank or not to be a bank at all and be just an NBFC.

**Your only issue will be how to put that ₹5,500 crore together. And then yours will be the first candidate in the list into RBI's post box?**

**Vaidyanathan:** You are running a bit ahead of your time because in our case we have foreign ownership which is substantially more than 50%.

**But 74% is allowed.**

**Vaidyanathan:** Yes, I know it is 74% but we got to look into a lot more factors. I told you earlier in one of your programmes that we understand very well that the opportunity is very large.

We also understand that India is hugely under banked and therefore this is a huge step forward but as far as our company is concerned we have got to wait and see a large number of other implications as well.

**But is it all that lucrative now, aren't NBFCs making more money? The environment is a little less restrictive for you guys, is it really so mouth watering or tantalising to have a bank license?**

**Vaidyanathan:** I do agree that this space is really very good. Funding is very much available and the opportunity is so very large in terms of penetration and so on and the last mile connectivity that NBFCs are able to give. So, any which way you look at it the NBFC space is right now quite good.